

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2242-01
Bill No.: HB 1029
Subject: Corporations; Taxation and Revenue - Income
Type: Original
Date: April 23, 2013

Bill Summary: This proposal would provide an alternative method for calculating Missouri taxable income for corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.451, RSMo. - Corporate taxable income

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** stated they did not have adequate data to prepare an estimate of the fiscal impact for this proposal.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted that currently, for corporate income tax purposes, a transaction that occurs "partly within the state" is partially included in taxable corporate income. This proposal would provide corporations with an alternate method for determining if transactions occur in the state or out of the state. To the extent corporations would choose this new method of apportionment, this proposal would reduce General and Total State Revenues by an unknown amount.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would provide corporations with another choice of apportionment methods, and assume the Department would have to process these computations.

Fiscal impact

DOR officials assume this proposal would reduce revenue because no corporate taxpayer would use it unless it results in payment of less tax than existing apportionment methods.

Administrative impact

DOR officials assume the Department would need to make form changes; but DOR officials did not indicate any cost to their organization for this proposal.

Oversight assumes any such cost would be minimal and could be absorbed with existing resources.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$40,900 based on 1,512 hours of programming to make changes to DOR systems.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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GENERAL REVENUE FUND

<u>Revenue reduction - DOR</u> Corporate taxable income calculation Section 143.451	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses which are incorporated could potentially reduce their income tax liability as a result of this proposal.

FISCAL DESCRIPTION

Currently, to determine Missouri taxable income for a corporation, in - state sales are added to one - half of sales partially occurring in the state and this amount is then divided by total sales. That fraction is then multiplied by the corporation's net income to determine Missouri taxable income. A sale is considered in - state if the seller's shipping point and purchaser's destination point are both in this state. A sale is considered partially in this state if the seller's shipping point is in this state and the purchaser's destination point is outside this state, or vice versa.

FISCAL DESCRIPTION (continued)

This proposal would allow a corporation to determine Missouri taxable income by dividing in - state sales by total sales and then multiplying that fraction by the net income of the corporation. A sale would only be considered in - state if the purchaser's destination point is in this state.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of state
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center



Ross Strobe
Acting Director
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